UNITED STATES
INTERNATIONAL TRADE COMMISSION

1n the Matter of:	)	
	)	Investigation No.:
CERTAIN CERAMIC STATION POST	)	731-TA-1023
INSULATORS FROM JAPAN	)	(Preliminary)

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Tuesday,
January 21, 2003

Room 101
U. S. International
Trade Commission
500 E St., SW
Washington, D.C.

The conference commenced, pursuant to Notice, at 9:33 a.m., before the Commissioners of the United States International Trade Commission, ROBERT CARPENTER, Acting Director of Investigations, Presiding.

APPEARANCES:

On behalf of the International Trade Commission:

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JAMES McCLURE, Supervisory Investigator
FRED FISCHER, Investigator
MICHAEL HALDENSTEIN, Attorney/Advisor
CRAIG THOMSEN, Economist
DAVID BOYLAND, Auditor/Accountant
JOHN CUTCHIN, Commodity-Industry Analyst

ADDITIONAL APPEARANCES:

IN SUPPORT OF THE IMPOSITION OF ANTIDUMPING DUTIES:

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RICK STANLEY
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Newell Porcelain Co., Inc.

IRA KNICKERBOCKER
Vice President
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SALVATORE FILI
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I N D E X

P R O C E E D I N G S

(9:33 a.m.)

MR. CARPENTER: Good morning and welcome on a rather wintery cold day. Welcome to the United States International Trade Commission's conference in connection with the preliminary phase of antidumping investigation No. 731-TA-1023 concerning imports of certain ceramic station post insulators from Japan.

My name is Robert Carpenter, and I'll be chairing this conference. Among those present from the Commission staff are: from my far right, Jim McClure, the supervisory investigator; Fred Fischer, the investigator. On my left, Michael Haldenstein, the attorney/advisor; Craig Thomsen, the economist; David Boyland, the accountant; and John Cutchin, the commodity-industry analyst.

The purpose of this conference is to allow you to present your views with respect to the subject matter of the investigation in order to assist the Commission in determining whether there is an reasonable indication that an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of the subject merchandise.

Individuals speaking in support of and in opposition to the petition have each been allocated one hour

to present their views. Those in support of the petition will speak first.

The staff will ask questions of each panel after their presentation, but no questions from opposing parties will be permitted. At the conclusion of the statements from both sides, each side will be given 10 minutes to rebut opposing statements and make concluding remarks.

This conference is being transcribed and the transcript will be placed in the public record of the investigation. Accordingly, speakers are reminded not to refer in their remarks to business proprietary information, and to speak directly into the microphones. Copies of the transcript may be ordered by filling out a form which is available from the stenographer.

You may submit nonconfidential documents or exhibits during the course of your presentation. These will be accepted as conference exhibits and incorporated into the record as attachments to the transcript.

Speakers will not be sworn in. However, you are reminded of the applicability of 18 U.S.C. 1001 to false or misleading statements, and to the fact that the record of this proceeding may be subject to court review if there is an appeal. Finally, we ask that you state your name and affiliation for the record before beginning your presentation.

Are there any questions?

(No response.)

MR. CARPENTER: If not, welcome, Mr. Sheldrick, please proceed.

MR. SHELDRICK: Thank you, Mr. Chairman, members of the staff.

For the record, my name is Andrew Sheldrick. I am member of the law firm of Nixon Peabody, counsel to Lapp Insulator Company, one of the petitioners here. I am accompanied by my colleague, Kendell Thier.

And with the consent of the other petitioners, we will be coordinating the presentation on behalf of all of the petitioners here this morning.

We have with us representatives of each of the petitioners, and let me briefly introduce them to you. To my far left, we have Rick Stanley who is the President of Newell Porcelain Company. To his right, we have Mr. Ira Knickerbocker who is the Vice President and post-CEO of Victor Insulators. To my immediate right, Richard Boltuck of Charles River Associates, the petitioner's economic consultants. Next to him is Rob Johnson, the Vice President and General Manger of the Lapp Insulator Company, Substation Division -- excuse me, the Insulator Division. And to my far right is Sam Fili, and I want to look at my notes to be sure I get this right, the union President of the IUE-CWA

Local 22485, which represents the hourly paid employees of Lapp.

I am just going to make a few brief introductory comments, and then invite these other gentlemen to give presentations after which, of course, we will be happy to receive questions from the staff.

Mr. Chairman, the product in question, the products in question are high voltage and ultra-high voltage ceramic station posts, which I think for purposes of economy of words, I will just refer to as high voltage station posts, which are used in electrical substations.

We would have been delighted to bring one with us today, but I can tell you that they range in size from four feet to 15 feet high, and weigh up to 1200 pounds, so you will appreciate the problems of getting one of those in the overhead bin on the plane.

But we do, however, have photographs which certain of the later speakers will be happy to show you to demonstrate how these products are actually used. I think when you see the pictures you will know instantly what they are.

The companies that are represented here today in support of the petition have many station posts and other ceramic insulator products in the U.S., in some cases for over 100 years. They all have proven reputations for

quality, service, and competitiveness, and over this period they have maintained their leadership by constant innovation and by new investments, and I think it's fair to say and you will hear from them directly, that they all boast state-of-the-art manufacturing operations.

So notwithstanding their age, this is not some dickensian-era industry which has failed to move with the times; in fact, quite the contrary.

We believe that we can compete with anybody in the world given the proverbial level paying field, and in fact these companies have competed in the past for many years with the company which is here today in opposition to the petition, namely, NGK.

NGK has been present in the U.S. market for many years, but beginning in 1999, it adopted a new and highly aggressive marketing strategy.

First of all, it targeted the specialty premium products for which U.S. producers were able to command some premium in price, and began substantially undercutting those prices. This spread and developed into a more general onslaught on prices to products generally, and we believe, frankly, that this has the very simple goal not only of increasing market share but also of putting one or more of the U.S. producers out of business and leaving NGK in the position in which it can effectively dominate and command

market prices.

Now, all of this has occurred, the downward trend in prices, at a time when demand for these products has been very strong, and the loss of supply and demand should have mandated the prices equally would remain fairly robust. But now as the industry enters a cyclical downturn with decreased demand prices have reached levels that are just not economically sustainable even in the short term.

In fact, during the period we are talking about, 1999 through today, prices have dropped by up to 25 percent again at a time when demand has been very strong.

Now, the economic consequences of this for domestic producers are described in the business proprietary data included in the petition and also in the questionnaire responses. But you will also hear today from Sam Fili the impact that this predatory dumping has had on the men and women who depend upon this industry for their livelihoods. You will hear about skilled and productive employees losing their jobs, others who have been forced to take very substantial pay cuts. And in short, we think you will find compelling evidence that imports of high voltage station posts from Japan have materially injured the domestic industry.

We think you will also find this injury will continued, and indeed intensify, unless the domestic

industry receives relief in the form of an antidumping order.

Demand in NGK's home market we believe is sluggish. NGK already has manufacturing facilities making ceramic insulators in Belgium, China and Indonesia. It has recently invested a substantial amount in a new facility in India. And we believe that this additional manufacturing capacity, particularly in India, will free up production in Japan for greater manufacture of high voltage and higher value-added products. We think it's clear that this additional product will inevitably end up in the U.S. market if NGK pursues its stated goal of increasing its global market share.

With those brief comments, Mr. Chairman, I would invite Rick Stanley to make the first presentation -- excuse me -- Rob Johnson to make the first presentation on behalf of the petitioners.

MR. JOHNSON: Good morning. First of all, I would introduce myself. As Andy informed you, I am Rob Johnson. I am Vice President and General Manager of Lapp Insulator company. I have held this or similar responsible positions at Lapp for four of my seven years there. In addition, I have been within the insulator or power industry for 18 years, effectively all of my career.

I would like to take a moment to introduce the

other members of Lapp Insulator that have joined us today starting with John Hirschman, our President and CEO, and one of the owners of the company; Evu Sirken, who is also one of the owners of the company as well as Vice President and General Manager of one of our divisions, the Bushing Division; Emil Plotkin, our corporate counsel, again one of the owners of the company; Mike Sterchero, our VP of finance and CFO, also one of the owners of the company.

In addition, we have Matt Bailey, our Vice President of Sales and Marketing; Eric Kress, Director of Engineering and Quality; and Tracy Weaver, who is our product manager who is on the front lines of this fight every day. So thank you for coming.

There is a couple of reasons why we brought these individuals to the meeting today. First of all, with this group of people, there shouldn't be any questions that we can't answer for you today, as appropriate. I believe that I can address the large majority of those, but if there is a detail that needs to be discussed, I think this group can address it very, very well.

The other things I am going to talk about this morning, hopefully within 15 minutes, is to briefly introduce the industry; talk about Lapp's position in the domestic market primarily, but also in the world market; describe the Lapp strategies in the competitive marketplace

from the nineties into 2000-2002 time frame; Lapp strategies and countermeasures to the activities and market activity that NGK poses in this market; describe the impact on Lapp Insulator Company and its employees; and quickly summarize.

First of all, to introduce the industry, I know many of you have seen in the petition the catalogues in the back, but I have brought some pictures, though some of them dated, that kind of put them in context of the industry and give you a view of what they look like out in the field. So you know, please review the pictures at your leisure.

Okay, in introducing the industry, the U.S. domestic porcelain insulator industry has a whole is made up of five companies. So within the U.S. market there is five companies making insulators. There is six plants and five companies. Four of those are represented today. The fifth is Porcelain Products, which does not manufacture this product, which is the high voltage station post insulators. And if it's okay, I will abbreviate high voltage and extra-high voltage just to high voltage.

Okay, the domestic products are produced within a set of industry standards defined by ANSI and IEEE committees. Those committees have representation from industry experts, utilities, original equipment manufacturers and clearly the manufacturers, and Rick will comment to that a little bit during his presentations. He

chairs one of those committees as well as the NEMA committee.

This contrast to some extent with products made outside -- for production outside the U.S. or for use outside the U.S., in Japan, for example, they have the JSA standard. IEC standards cover a large portion of the world. The ANSI-IEEE standards are very specific for the U.S. and some of the U.S.-influenced territories around the world. Canada largely runs with ANSI-IEEE products. Mexico had a modified version. Other areas in the world also use modified versions or ANSI-IEEE products.

Extending the scope of the market, there is one vertically integrated manufacturer of ANSI products in Quebec, Canada. They manufacture switches and insulators for their switches. They don't do much in the open market. There are three manufacturers in Mexico, none of which produce high voltage product.

So my point is that the scope of the product in North America is pretty much in this room right now. There is not much out there within the rest of North America within this product scope.

Extending that to South America, there is about eight manufacturers in total of porcelain insulators in South America, but there is really one manufacturer of high voltage station posts. That's in Brazil, and it pretty much

stays to the home market in Brazil.

So you can envision the five U.S. or the four U.S. companies and the one Brazilian as everything that's manufactured in the Western Hemisphere.

The customer base for the products in this petition, the high voltage station posts, are large packagers, OEMs, original equipment manufacturers, and the final end users are either utilities or industrials; for example, pharmaceutical company or large corporation that buys a substation for their plant. The large majority, of course, end up at utilities either directly through the manufacturers that are here today or indirectly through an original equipment manufacturer.

As I pointed out, you can see what the individual station posts looks like in those picture. If you have any questions, please feel free to ask.

Lapp's position in the insulator industry, Lapp has been really a leader in the industry since 1916. Lapp's lineage actually starts at Victor where John Lapp, our founder, began his career with Fred Locke. Locke is a name, of course, that we all recognize from the petition. So this is kind of an inbred industry. We all started from the same roots, which really come out of Ira's company, Victor. And I hope I didn't steal your thunder there. You will probably discuss that a little bit.

While Lapp Insulator Company has a strong history in the U.S., we have been the market leader in the station post products, introducing the first station post product into the market in 1931, and developing new patented processes and innovations during our 87 years.

That being said, we didn't rest on the know-how and the technology of the past. In the last several years we have done a lot of work to improve our processes and our materials.

Again, Lapp has been the market share leader in high and extra-high voltage station posts as far back as I can trace records, so in the U.S. domestic market we have really dominated that market. I shouldn't say dominated, we have been the market share leader in the neighborhood of 30 to 40 percent over the recent history.

We have achieved that market position through consistent investment, in materials technology, process technology, labor productivity, equipment automation, material handling innovation, and really our equipment people are some of the best in the industry. So we have stayed very cost competitive over the time horizon of manufacturing these products, and that's through a lot of hard work and good research and development that has occurred in the last 10 - 15 years.

Lapp has made extensive use of work cell process

technology to improve labor productivity and is really among the best in the world. I have been through 20 - 25 insulator plants around the world, and you know, productivity is measured by value generation or value creation of the product that's being made per employee. Really, the process that we have up in upstate New York, it's very, very good and can compete with anyone in the world.

Our products can be found on most every electrical grid in the U.S. We export products to over 50 countries in the world. So again, we are out there, we are pretty well known.

Until recently, based on the best information available, I think it's safe to estimate that Lapp had the highest install-base of capacity for station posts in the world. So we -- I'll call that the western world. There are some things we don't know about Russia and China exactly these days, but that being said we had in LeRoy a very, very large capacity for these products.

In discussing the market dynamics during the time period of '99 and 2000, I'm kind of telling you a story, a story of what we have looked at and faced, and I am sure that Ira and Rick will expound on some of these points that I am bringing up. The above was true in 1999, meaning that we had a very install capacity in our facility, and the

market really first started rebound from a down cycle of the late nineties.

All through the nineties with deregulation there was a pent-up demand building, and there wasn't a very large market. But in 1999, really we started seeing light at the end of the tunnel from the standpoint of the size of the market and the activity in the market.

On sales, from NEMA data, which has been provided in the petition, it shows about a nine percent increase in market size in 1999, and most of the companies were holding their traditional market shares. Lapp was in the 40 percent range, Victor, Newell, Locke were in t heir traditional market sizes.

And what I am going to do is I'm going to describe a baseline price as 1999, and call that 100 percent for discussion purposes as we go through this.

So really 1999 was -- you know, was kind of the baseline year from which, you know, we can measure some of the things that have happened in the recent years.

Then during '99, the market appeared to be kind of at equilibrium with the three domestic producers at this table, and NGK-Locke having the large majority of the share within the domestic market.

By 2000, however, the market dynamics began to change very quickly very significantly. The market demand

for high voltage station posts grew tremendously as 2000 progressed. You may remember, you know, all the articles in the paper about the shortage of power, and the actions of the utilities to start generation projects and transmission projects to increase the margin to reduce the number of black-outs that were occurring in the U.S. like they were in Chicago, and you know, clearly the California crisis.

Really the first signs of aggressive behavior by NGK from Japan was unexplained aggressive price approaches on really what we can describe as the highest value products in the U.S. market for ceramic high voltage station posts. These products are called RG insulators. Well, RG is a trademark that Lapp uses. Effectively what it is it's a semi-conducting glaze on the outside of the porcelain, and that semi-conducting glaze helps it perform very well in highly environmentally contaminated areas.

Lapp had been largely the main supplier of that product for 20 years, and NGK really was not in that market heavily at all in the U.S. And in 2000, as they entered the market, they presented that product and because that product takes extra processing and special material it demanded a premium. It wasn't anything that was extravagant; maybe, you know, 60 percent, something like that, over the standard product, but it had a lot of value to it.

NGK came in and started offering that product at

effectively no premium at all or very small premium. So really the first signal that we noticed that there is something aggressive coming from across the pond was these premium products, and that extended into other types of premium products, things like extra-high strength, so these are things that are very large in stature, large in dimension, difficult to make relative to the standard products.

Extra-high leakage, which means they have a large number of sheds or petticoats as you look at the pictures, each of these insulators has a protrusion. The more of those you put per height, you know, the more kind of difficult it is to make the product. It takes longer to turn, longer to machine, also becomes a bit tougher to handle. So, you know, again, the first couple things we saw in 2000 was they were attacking -- these are my terms -- they were approaching the very high valued products and effectively wiping out the premium that those products provided into the marketplace.

Really, the second signal -- I've covered that, excuse me.

Also in 2000 for higher volume, non-special-type of insulators, you know, the standard high volume insulators at 115 through 230 and above, NGK started to be much more aggressive in the standard market, going after those

products at OEMs, the utilities and packagers.

And for those products, setting aside the high value specialty products, really in 2000 that price level is driven by NGK to capture share, and largely driven from Japan, was taken from that baseline of '99 of 100 percent down to about 94.5 percent. So there was the first move into the market in 2000.

That being said, there was significant market growth taking place. Most manufacturers, I'll speak directly for Lapp, but I believe this is true for Victor and Newell as well, were pretty much satisfied with the overall strength of the market and the growth in the domestic market that was occurring in 2000.

You know, we questioned, we questioned why in an increasing market NGK would take an approach to reduce prices when we have been waiting for the pent-up demand to release so that all of our businesses could perform at a higher level.

But that being said the market was growing. There were quite a few customers out there. And NGK's actions though disturbing, you know, resulted in something that we were still looking at 2001 as a very good year coming up. There is a lot of business, a lot of demand, a lot of investment. So we -- you know, we were relatively satisfied with the way things were going.

Unfortunately, as we got into 2001, on the positive side it was another year of increased demand in the market. Actually, it was just a fantastic growth period for volume of product. But unfortunately, at the same time the price of natural gas within the U.S. market tripled. It went from about $3 a decitherm to $10 a decitherm where it closed on December 30th of 2000 for January of 2001.

This tripling effect was largely driven by what I would describe anyway from my response on it non-supply and demand dynamics. It was really not market driven from, you know, what we can tell. But that being said, we had to pay -- you know, it didn't matter where it came from, we had to pay it. Natural gas is what all the companies used to fire their kilns, fire their dryers, which is part of the process as described in the petition, but also all of our raw materials. many of our raw materials are processed by our suppliers using natural gas. So those costs went up.

Trucking firms and gasoline prices and diesel fuel was up at that same period of time, so we were paying surcharges on effectively everything we were producing.

So what the domestic producers, the three at this table chose to do, we sent out notice to our customers in the first quarter of 2001, we implemented a seven percent surcharge to help us cover those costs which was only natural that we would be able to pass that on to our

customers, especially in an up-market. You have up-market conditions, strong market conditions, and costs are going up, and that should be transferred onto your end user.

That being said, what occurred at that point in time is that NGK stepped in and told customers that they would step into -- at least in my case -- Lapp's shoes, and when they stepped into Lapp's shoes they would cover their contracts if they would cancel their orders which Lapp, which some did, and NGK did step in.

Right about the same time that gave them the opportunity to go in and renegotiate with the customer. Not only did they step into the prices Lapp had, but they took the prices down from where we were the previous year, 95.5, down to 90.3 percent of that baseline level.

Clearly, the surcharge with these activities by NGK simply collapsed. The market didn't support it. Though Victor and Newell tried to support it as to porcelain products and other types of products, but because of NGK's activities it simply did not follow through.

So after that first quarter Lapp had no choice but to go down and match that 90.3 percent, otherwise their market share would continue to erode.

By September, the 90.3 percent was driven down to 86 percent through another market price move by NGK, and really in total, counting the value, high value products

Lapp was experiencing a total of about a 25 percent price decay from 1999. So it was about 10 percent on the standard products, and then with the elimination of the premium on the higher value products it was netting about a 25 percent total reduction.

As a response, Lapp really had no choice except to restructure its facilities. We had to lay off. We estimate we lost about 13 share points from 1999 to 2000, I'm sorry, 2001. We really had to go back and focus on, you know, some of our core customers, and pull back a little bit from market share leadership.

In 2002, the markets for the projects remained strong through the first quarter. And while Lapp's countermeasures or response to NGK's strategy helped us turn around a little bit because we weren't so aggressive on market share, what occurred in the second quarter the market really started to collapse. Okay, so we lost that market share and the market started to fall.

So at that same time because everybody needed volume, NGK took it down to another level, which is 82 percent from the baseline of 100 of 1999.

I'm about out of time here so I will cover this quickly.

The impact on Lapp was another round, actually two more rounds of layoffs in 2002, but beyond that and the

impact that it's had on our people, we had to shut down one of our two tunnel kilns. A tunnel kiln is a very high-volume piece of equipment that we had in the restructuring of our facility we had to take off-line. We also shut down four smaller kilns and four medium-sized periodic kilns, so we had to significantly reduce our capacity.

We removed from service about 10 percent of the square footage in the facility, and as I mentioned a minute ago, we had two more hourly and salary layoffs.

The domestic industry has been through tough markets before. As a matter of fact, current estimates our 2003 will approximately be at 1999 volume levels, so it's not like these are unprecedented low slow-downs. It's a slow-down, but it's something within the bandwidth that this industry has ridden through.

The current problems that Lapp is facing is that with the current price levels there is no opportunity to improve the investment or market growth in the future, so our hands have been tied.

Lapp is committed to the station post industry. However, that commitment cannot result in bleeding cash with no result in sight to the deflated prices brought in by NGK in both the standard and the special market. And the current conditions investment will be impossible, effectively sealing our fate.

Quickly in summary, what I have attempted to do is describe to you that the Lapp Insulator Company employees and owners feel specific damage has been applied to the U.S. industry through dumping of high voltage station posts manufactured in Japan to the U.S. market, effectively destroying the opportunity for current and future profitability, and thus sustainability of the domestic high voltage industry.

Lapp Insulator entered into this petition filing with great reservation. Lapp is not a litigious company by nature. I can't think of any lawsuits that we have filed. What we are looking at is for a level playing field. We at the company are a group of employees and owners not looking for a hand-out; we just want a level playing field.

Thank you.

MR. SHELDRICK: Thanks, Rob.

I think next up is Rick Stanley on behalf of Newell Porcelain Company.

MR. STANLEY: Good morning.

For the record, my name is Rick Stanley. I am the President and CEO of the Newell Porcelain Company, and we are a manufacturer of high voltage porcelain located in Newell, West Virginia.

Our facility was idled in 1987 by Ohio Brass, which was a division of the Hubbell Company, in their

decision to move away from porcelain production and concentrate on polymer products only.

The plant closing resulted in the loss of approximately 150 jobs at the time. At the urging and the support of then West Virginia Governor Jay Rockefeller a management team was recruited, financing acquired, and the assets purchased. Following some needed infrastructure investment, we opened for business in January of 1989.

Within six months 50 percent of the laid off former Ohio Brass employees had been recalled to their job at Newell.

At our peak, and just prior to the period of investigation in 1999, Newell Porcelain's employment had reached over 100 employees, providing good paying family supportive jobs with health care and pension benefits.

I joined Newell in July of '89 as a result of their attempt to establish a sales department in the company. In November of '91, I was given responsibility as sales manager. In 1994, I became the Vice President Sales and Marketing, and continued in that capacity until June of '99, when I assumed the current role I have as President and CEO.

At that point, or in September of '99, I, along with our current CFO, put together a leverage buyout with four other outside investors, and we purchased Newell

Porcelain Company.

I have witnessed over the last three years NGK's constant and continuing lowering of prices. It's for the most part NGK, not our domestic competitors, that forced us to lower our prices to get an order and often times we still are unable to book the product.

I would like to make a few comments about the market. And as Rob mentioned earlier, I am involved in and have been involved in the sales and marketing at Newell almost since its inception, and over the years have gotten involved in with the NEMA, National Electrical Manufacturers Association, which I currently chair the insulator committee in that organization, and I'm the co-chair of ANSI-C29, and our function is to establish the standards for ceramic and non-ceramic products manufactured in the United States.

In regards to the market, in early '99, we forecasted an increase in demand for high and ultra-high voltage products. This was based on customer input, and after assessing the strong influence on the market by independent power producers.

And as a response to this forecast that we had, I approached our board of directors and asked them to approve authorization for me, for our company to refurbish and idle kiln in our facility. And this kiln had been idled actually since the Ohio Brass days of our company. That

authorization was approved.

The investment increased Newell's capacity to fire high and ultra-high voltage porcelain by approximately 30 percent, all of which was done to position us to capitalize on this increased demand. And as we projected the strong demand did occur as Rob described, and unfortunately, Newell and I suspect the other producers did not enjoy or even share in the upturn of demand due to the increase intrusion by NGK driving price downward in their new strategy.

What's most alarming is the inescapable conclusion that NGK implemented a price strategy designed to cripple domestic competition by targeting the products of high and ultra-high voltage units as well as the other type product that Rob described which prior to the period of investigation provided premium prices to Newell and other domestic producers.

In the face of increased financial pressure over the last three years, Newell has been forced to lower prices, thus reducing revenues as represented by the financial data which is included as a part of Newell's confidential and proprietary submission.

We have in some cases deferred orders and cancelled important projects as a result of this lost revenues. We have been forced to reduce our management workforce by 30 percent, and our unionized production and

maintenance workforce by 20 percent over this period.

And sadly, the kiln which I had previously mentioned that we refurbished and brought into production has been idled now for the past nine months as an impact and the result of losing these order to NGK.

I would also like to say that besides the kiln that we brought on line our additional kilns, the capacities have probably dropped on the order of another 20 percent, so right now we are running at about 50 percent of kiln capacity to what we were during these strong demand periods of 2000 and 2001.

My company and its employees have suffered these losses despite a solid performance of producing a quality product with a strong record of on-time delivery. As a start-up company in 1999, everyone at Newell has worked diligently to establish a position and reputation in the marketplace, and because of NGK's predatory pricing we have derived no benefit in the last three years.

Thank you.

MR. SHELDRICK: Next up we have Ira Knickerbocker on behalf of the Victor Insulator Company.

MR. KNICKERBOCKER: Good morning.

For the record, my name is Ira Knickerbocker. I am a principal stockholder and a co-CEO of Victor Insulators. My academic background is ceramics and I have

over 30 years experience in the operations and management of our insulator business.

Victor is the oldest insulator manufacturer in the United States. Fred Locke first began producing insulators made from porcelain in 1893 on our site 20 miles southeast of Rochester, New York.

Victor produces the broadest range of products of any U.S. manufacturer. For example, we offer a full range of pin types. line posts, suspension insulators for distribution for voltage applications. We produce a variety of medium and high voltage specialty products for OEMs, and we produce a full range of substation products.

For over 100 years, porcelain insulators from Victor have helped build the electrical utility infrastructure throughout the United States and elsewhere. While proud of our tradition, we are proud of the fact that Victor has continually evolved in its processes and product offerings to meet the needs of our customers. This has helped assure Victor would remain a viable, cost-effective and valued supplier.

This changed process continued up to and throughout the period of investigation. In 1996-97, we predicted a strengthening demand for high voltage and extra-high voltage station posts. This demand was expected to remain high once it developed at least into 2004 and longer.

We recognize we had limited production capacity, and we would lose market share due to our inability to produce more in proportion to the rising demand. We recognized we did not have the most cost-effective designs, and that the market was gradually turning away from cavity core products to solid core products. We recognized the high voltage and extra-high voltage station posts are more highly engineered and have more value added than many of our lower voltage commitized products.

Given a level playing field, a U.S. manufacturer can compete with anyone in the world. For these reasons we invested several millions of dollars in our business, nearly $2 million of which were devoted to the high voltage and extra-high voltage station post products.

This investment was spent on analysis and process control equipment, new and more effective mixing, more effective and efficient press equipment, a very large 270 horsepower vacuum extruder, additional drying capacity, a new six-spindle green finish C&D lathe for large porcelain components, and a new large glaze machine.

We have invested heavily in process development and product development. We are well on our way to having a state-of-the-art expanded product line for high voltage and extra-high voltage applications.

With these investments, we addressed capacity

constraints and our output rose 75 percent. With these investments the porcelain component building blocks that make up a high voltage or extra-high voltage post were increased in size from a maximum 30 inches to a maximum of 60 inches. We significantly reduced the metal component costs as well as our assembly labor costs.

From our producer questionnaire you can see that our sales revenue increased substantially. But in spite of all of our successful efforts to reduce costs, our gross margin percentage dropped by half. We have negative operating income starting 2001.

Victor is not a price leader. There is no question that NGK, NGK-Locke led the prices down throughout the period of investigation.

Due to capital issues, the high voltage -- the demand for high voltage and extra-high voltage station posts has now weakened significantly. It is likely this demand will remain depressed at least through 2003.

Under ordinary circumstances, we could cope with periodic drops in demand. But Victor, like the other petitioners, is vulnerable because we have not been able to make money during a period of high demand, which in turn is because NGK has driven prices down to a level that is unsustainable.

In recent weeks, we have laid off many hourly

employees, curtailed our product development and testing programs, curtained investment plans. Under current pricing circumstances the viability of Victor Insulators as a business is in question.

Thank you.

MR. SHELDRICK: Thank you.

Mr. Chairman, having heard the presentations from the companies, I think it's important in order to complete the picture of what's happened to the domestic industry to hear more about the impact on the workforce, and for that I turn to Sam Fili.

MR. FILI: Good morning, Mr. Chairman, members of the staff.

My name is Sam Fili. I am the President of Local 22485 of the IUE-CWA, which represents the hourly paid employees of Lapp Insulator Company.

I appreciate having the opportunity to address you today to tell you firsthand how imports of high voltage station posts from Japan have affected the employees in the domestic industry.

I have been an officer of the union for six years and president since 1999. I have been a full-time employee of Lapp for 15 years, working in the substation division where station posts are produced. I am also a life-long resident of LeRoy where Lapp's plant is located.

I can therefore speak to you today not just as a representative of the union, but also as an employee of the company and as a member of the community that it supported for many years.

During the past two years, the workforce at Lapp has born the brunt of Japanese station post imports. At the start of 2000, shortly after I became president, we were running 21 shifts per week, and we were discussing changes in operating procedures to increase output further.

In September of 2001, substantial layoffs took place, bumping of jobs led to loss of wages of up to $7 per hours for several workers. Employees were moved to different shifts, to other jobs. Lifestyles were affected and morale was at its lowest in years.

In August of 2002, the union and company negotiated a side agreement to our current collective bargaining agreement to reduce the bumping losses. We went on a four-day work share program. Fourteen people took voluntary furloughs, and some departments went on a one-week per month shutdown. In return the company guaranteed certain employment levels and no more loss of wages during the time of the agreement.

Through retirement and downsizing, we are losing senior employees with skilled trades, some with up to 30 to 40 years of experience. Currently with no apprenticeship

program in place, and the company is unable to increase its costs, and not able to hire skilled trades employees to replacement them.

Layoffs has taken us back in seniority to 1997. Most younger employees with new homes, young families have lost their jobs. The effects of the community have been devastating. Lapp is a major employer in Genesee County. Several employees travel from four neighboring counties to work there.

Often in our union office in the plant, I get phone calls from members that are laid off, asking about the conditions of Lapp and telling us that there are no jobs available in the area that compare with the lifestyle that Lapp provided them.

The union and management of Lapp enjoy a good relationship. We have tried to work together to address the problems caused by the Japanese imports. However, we see no solution to the problem other than measures to stem the flow of unfairly traded imports.

On behalf of my members and their families, I ask you for your help in protecting us from the effects of these imports. Our jobs at Lapp mean everything to us.

Thank you.

MR. SHELDRICK: Thanks, Sam.

To conclude the presentation on behalf of the

petitioners, we have Richard Boltuck of Charles River Associates, the economic consultant to the petitioners.

MR. BOLTUCK: Thank you, Andy.

For the record, my name is Richard Boltuck, Vice President, Charles River Associates, and I am pleased to appear this morning before the staff conference on behalf of the petitioning companies and unions.

I have been asked to review the economic issues bearing on whether imports of certain ceramic insulators from Japan are materially injuring or threatening the U.S.-like product industry. Much of the detailed information in this investigation is confidential because, for example, there is just a single respondent producer, NGK Insulators, Limited.

But the publicly known facts that I can discuss confirm the conclusion that imports from Japan are presently causing and are threatening future material injury.

You have heard from Rob Johnson of Lapp, Rick Stanley of Newell, and Ira Knickerbocker of Victor about the main characteristics of competition in this market. As you learned from these witnesses, this investigation covers a market that features highly commodified products sold at standard specification where end users regard U.S.-produced and imported products to be essentially perfectly fungible.

Moreover, market demand is inelastic as high and

ultra-high voltage ceramic insulators, those with service class ratings of 115 kilovolts and above have no suitable and economic substitutes, and constitute only a minor share of the cost of constructing an electrical substation or more generally expanding a electrical transmission system. And both imports from Japan and the U.S.-like product are sold through the same channels of distribution, to the same utilities and OEM producers increasingly through internet auctions where price is always the deciding factor.

Product fungibility, highly inelastic demand and direct head-to-head competition through the same channels of distribution to the same sets of purchasers constitute conditions of competition conducive to injury when imports enter the U.S. market in significant volumes at sharply dumped prices.

Against this backdrop, this investigation presents a classic case of Jacob Biner style dumping and injury. NGK faces no significant foreign competition in its home market, protected by idiosyncratic Japanese product standards and possibly other means, even though U.S. producers sell successfully elsewhere in East Asia. As a result, NGK's home market prices are extraordinary high in comparison to prices around the world, and specifically in comparison to its export prices to the United States.

By virtue of covering its fixed costs in its

protected refuge market, NGK is able to export to the United States at prices at or even below variable cost, prices that companies such as Lapp, Newell and Victor can't sell at and survive.

And since 2000, NGK has embarked on a U.S. marketing strategy that exercises this ability to sell in the United States around variable costs by exporting at aggressive dumped prices, targeting especially the most profitable market segment such as high strength and high leakage products.

Predictably, petitioners discovered that NGK's imports have accounted for a significant and expanding share of the U.S. market since 2000. NGK's import pricing strategy designed to buy market shared kicked in over the past three years, at least the first two of which were years of periodically strong demand, years during which U.S. producers should have earned high financial returns that offset lower returns during years of more demand, years such as 1999 and before.

Beginning in 2000, expansion of electrical systems across the board responded to the national electricity shortages that struck California with the greatest severity. Downstream investment in generation and transmission capacity contributed significantly to favorable overall market conditions in the United States market demand.

Production costs, however, increased by 2001 as natural gas prices rose.

Yet through the POI prices have actually declined despite strong demand and rising costs. Why is this?

Well, as a result, the petitioning firms have significantly underperformed the financial returns that they would have achieved in the absence of competition with huge volumes of product sold at dumped prices, and this underperformance is one of the principal manifestations of current material injury.

By 2002, however, significant portions of the U.S. industry that had sought to follow NGK's import pricing down and thereby retain historical customers and market share concluded that continued pursuit of such a strategy would be suicidal.

First, it was impossible to fully meet NGK's price so U.S. producers were ceding market share anyway. Second, low pricing was resulting in a hemorrhage of red ink right in the midst of a strong market when U.S. producers knew from past experience they had to obtain better financial performance or cease being viable market participants in the long run.

So in 2002, at least a significant portion of the industry shifted gears and adopted a damage mitigation strategy that involved focusing on the most loyal part of

the customer base and maintaining somewhat stronger pricing. This strategy involved sharp short-term cost slashing by shuttering kilns and sharply reducing PRWs through fewer shift requirements.

You have heard Sam Fili, President to the IUE-CWA, Local 22485 Union at Lapp, describe the hardships imposed on Lapp's worker through this process, and the threat of further layoffs or closure.

Although this approach helped the bottom line in the short run in the face of NGK's continued sale of huge volumes of dumped products, it placed the continued survival of much of the industry in question as customers would not tolerate prices above those changed by NGK for very long. In effect, by mortgaging the future much of the U.S. industry achieved somewhat better short-run financial results in 2002, and thereby live to compete another day. But even so the industry seriously underperformed what it would have achieved were it not for dumped imports from Japan.

In addition to financial underperformance, the shuttering of facilities and reduced use of workers, needed investments and debottlenecking in modern equipment and research activities have been cut sharply doing the POI as U.S. producers could not justify to investors or banks that those further investments, however much they are needed,

would provide adequate paybacks in the future.

You have heard about some of these delays and cancellations of capital projects this morning, and they are further documented in the petition and U.S. producer questionnaire responses.

Turning to threat, the petitioning companies and their workers can only see more of the same exacerbated by NGK's investments in new capacity in India that will likely be used to produce medium-voltage insulators, thereby freeing up capacity in Japan for expanded production and exports.

In any event, the conditions that have led to NGK's aggressive export strategy, including weak home market demand in Japan, are unlikely to abate any time soon. Since the injurious impact on the petitioners is cumulative as financial underperformance and reduced demand for labor continues and grows and as needed investments continue to go unmet the magnitude of injury is likely to get far worse in the next few years.

It is for these reasons that the petitioning companies and the workers in the industry look to the ITC and the antidumping laws for relief, relief that will enable investments, fuller use of resources, and profitable sales and competition with fairly priced imports.

I would be placed to respond to any questions at

the appropriate time. Thank you.

MR. SHELDRICK: Thanks, Richard.

Mr. Chairman, that concludes our prepared presentations, and I think we just about did it within the allotted 60 minutes, and at this point we would be happy to take questions from you and the staff.

MR. CARPENTER: Did you want to make those an exhibit to the transcript?

MR. SHELDRICK: Sure, yes, if we could. We'll make those an exhibit to the transcript today.

MR. CARPENTER: Do you have an extra set of those pictures or is that the only ones that you provided?

MR. SHELDRICK: Those are the originals, the only copies.

MR. CARPENTER: I'll just ask if we can pass that back to the Respondents so they can take a look at it and then I'll ask the Respondents to pass it on to the stenographer to incorporate into the transcript.

(Exhibit 1 was identified and received.)

We'll start the staff questions with Mr. Fischer.

MR. FISCHER: Thank you all for your testimony this morning. Fred Fischer, Office of Investigations. I have several questions so I'll try to be brief.

The first question I guess is addressed to Mr. Boltuck and Mr. Sheldrick. The Commission needs to determine in

their analysis the quantity and value of imports that are coming in from countries other than Japan. The official statistics, the HTS number is a basket category. It includes products other than what is part of the scope here.

I just wanted to get your thoughts on how we should try to derive import data for non-subject imports for this product. If you could address that now, and if you need to as well in your post-conference brief.

MR. BOLTUCK: We'll also look at it in the post-conference brief. I just have a couple of remarks.

First, we provided an estimate of ceram imports based on information that Lapp and Rob Johnson had acquired. I think that is from a fairly direct source and reasonably reliable and he can address that question.

The second thing is actually a question. I understand the Commission had sent out 15 importers questionnaires. We've only seen a small fraction of that, without getting into any proprietary information. But I'm not sure if you at this point expect those responses back. I would assume they might cover non-subject imports as well.

MR. FISCHER: We've gotten back most of the responses. They'll be shared by our APO process to you I believe early tomorrow.

MR. BOLTUCK: Thank you.

MR. FISCHER: I guess what might help us as well, for

us to do our own independent analysis of import data, Mr. Johnson you had mentioned earlier that there are certain producers around the world that well these products on the open market and may in fact sell them in the U.S. What may help us is if you could identify in your post-conference brief the foreign producer names and locations. By doing that we can look at imports based just on particular foreign producers, as well as if you're aware of any particular importers or countries that should be of concern to us as far as products similar to the scope coming in from these other countries. That would be helpful.

MR. JOHNSON: I'd be happy to put that together in the post-conference brief. And directly to your question about PPC insulators, or as we listed ceram, which was their former name, we received that information directly from the company.

MR. FISCHER: Mr. Johnson, you had also mentioned a seven percent surcharge, I believe, in your testimony in 2001 that was put out by your company. I wonder if you could in your post-conference brief or now give us more specific information as to how that surcharge was communicated to customers, how much time they would have had to respond to that, and then when that surcharge would have been withdrawn. If you have any documentation to support that.

MR. JOHNSON: Absolutely.

MR. FISCHER: As well as Mr. Knickerbocker and Mr. Stanley, to the extent that this applies to you as well.

MR. SHELDRICK: We can compile a cumulative response, Mr. Fischer, and put that in the post-conference brief.

MR. FISCHER: Thank you.

I noticed in some of the pictures that are now part of Exhibit 1 that was passed around, there were large insulators and then there were smaller insulators that were stacked. If you could just discuss briefly the differences or advantages between stacked insulators and large insulators.

MR. JOHNSON: At certain voltages any manufacturer will require the need to stack insulators. For example, above 230, at least as far as I know the industry, everybody stacks insulators.

Different manufacturing companies have capabilities in their processes or capacities within their processes that fit them better based on height of product. So Manufacturer A, for example, it may be more cost effective for that manufacturer to make two 50 inch pieces to get to the 100 inches, or two 30 inch pieces to get to 60.

As far as the interchangeability into the marketplace, it doesn't matter to the end user. The end user defines the product per the ANCI standards and both products would meet

the ANCI standards. But that being said, most manufacturers are moving toward single piece units as they progress toward more advanced manufacturing techniques.

MR. SHELDRICK: I hesitate to add anything of a technical note, but I believe it's true and my friends will correct me, that the issue of stacking depends in part upon the height constraints which the individual manufacturer has, and that can result from either constraints on the length of the piece that can be machined; and secondly, the height of the piece that can pass through the tunnel kiln. I believe those are the two technical issues that would affect stacking in any given manufacturer's case.

MR. FISCHER: On a similar note, how has the technology in both the product and the process changed in the last 10 or 15 years? Have there been many changes?

MR. JOHNSON: I'll speak for Lapp and what I know in general about the industry.

There's no doubt that the ceramic insulator business is a mature business. The base technology was invented around the turn of the century. Of course there's been very significant improvements in process techniques. Process techniques that take advantage of current technology, whether that's CNC equipment to automatically machine the parts, to sophisticated material handling equipment that many of us possess to transport the product through the

facility and move these very large heavy pieces safely and efficiently.

So much of the technology advancements have improved cost structures and improved productivity through processing techniques, taking current technology into account.

On the materials side there certainly have been improvements by our ceramic engineers. I doubt that many manufacturers haven't made some type of improvement to their composition either by increasing strength, increasing the speed at which it can be processed or dried. Certainly Lapp has made improvements of that sort within the timeframe you asked.

MR. FISCHER: On a similar note, non-ceramic materials, station post insulators that are made of non-ceramic materials, do they compete with ceramic? And do any of the producers here produce non-ceramic station post insulators, 115 kilovolts and above?

MR. JOHNSON: They do not directly compete in the normal application of the product. Lapp does not manufacture station posts, non-ceramic station posts.

MR. KNICKERBOCKER: Victor does not. We do not see them as competing in our markets.

MR. STANLEY: Newell Porcelain does not manufacture a non-ceramic product.

MR. FISCHER: Are you aware of any U.S. producers that

produce non-ceramic station post insulators? Transmission station post insulators 115 kilovolts and above? If you're aware, if you could just let us know now. If you'd like to provide a response in your post-conference brief that's fine.

MR. JOHNSON: We'll do both. We are aware of companies that do produce those again in very small quantities. We will provide the names in the post-conference.

MR. FISCHER: Thank you. A few more questions.

Mr. Stanley, you had mentioned that you had refurbished a kiln and invested a certain amount in it and then closed it down.

To the extent that Mr. Knickerbocker, Mr. Stanley, Mr. Johnson, you can address the issue of the costs involved and the time involved in refurbishing and putting a kiln on line and then also having to take one off line, and to the extent that you have done that if you can provide -- You may have done so in your questionnaire response. I haven't had a chance to look at it. Specific dates and costs and time lines on starting up and shutting down any kilns during this period of '99 through September of 2002.

MR. STANLEY: I'd be happy to address that in our post-conference brief. I can say that it was an existing kiln that had not been operated for probably 20 years, maybe 25 years, that was originally installed by the Ohio Brass

Company and we basically took the shell of the kiln and just put a new burner system on it so we're capable of firing it higher.

MR. SHELDRICK: Mr. Fischer, as I understand it you're interested in both the specific case that Rick was mentioning as well the more general discussion of costs and other issues associated with shutting down and reopening the kilns.

MR. FISCHER: Correct. We would like to have for the record as much detail as possible on any changes in the operations from a deployment standpoint as well as from a production standpoint.

MR. SHELDRICK: Understood.

MR. FISCHER: Mr. Sheldrick, I guess this question is addressed to you.

Are you aware of any antidumping orders on Japanese ceramic station post insulators that currently exist around the world? If you can address it in your post-conference brief if you're not sure.

MR. SHELDRICK: We will look into that again and we will provide whatever information we can on a post-conference brief.

MR. FISCHER: Thank you.

The Commission in their questionnaires are gathering data through September of last year, 2002, and I just wanted

to get your comments on where the market is and has gone, if it has changed much in the last quarter of 2002 to the present.

MR. JOHNSON: It has not changed significantly. I would say the third quarter is representative of the fourth quarter and is representative thus far of 2003. So if you annualized the 2002 data it would certainly be higher because the first half was strong, but if you took the third quarter and doubled it, that would represent the second half. At least for Lapp.

MR. KNICKERBOCKER: For Victor we continued shipping off of backlog in the third quarter so our numbers look stronger than what the market really was. Our order entry dropped significantly and it has maintained a very low level for the fourth quarter.

MR. STANLEY: For Newell I would say that it's very similar to what Rob and Ira have described. I believe Rob earlier in his statement made the comment that they're expecting 2003 to be very similar to 1999. That's our expectation as well based on the feedback we're getting from our customers and what we're seeing in the market.

MR. FISCHER: My last question for now deals with Lock Insulators and how they should be treated by the Commission. Lock is a U.S. producer but there's also an ownership issue, being owned by a Japanese firm. I wonder if you can address

now as well as in your post-conference brief both on a legal basis and a factual basis how the Commission should address the issue of Lock Insulators' production, whether or not their interests primarily lie in U.S. production or whether they're primarily an importer.

If you could address that to the extent you can now as well as in your brief, that would be appreciated.

MR. SHELDRICK: Mr. Fischer, I think that question ventures into the area of proprietary data which makes it somewhat difficult to discuss in an open forum, so I think we would be able to give a better, fuller response in the post-conference brief.

MR. FISCHER: Thank you.

No further questions for now.

MR. HALDENSTEIN: Mike Haldenstein in the Office of General counsel.

Following up on what Mr. Fischer was asking with respect to Lock, if you could also address whether, if you could take a position on whether they should be included in the domestic industry or possibly excluded, and discuss the extent to which they've benefitted from importing.

Also if you could discuss if possible the reason that they're importing.

MR. SHELDRICK: We'll certainly do so.

MR. HALDENSTEIN: Another legal question in this

investigation looks like it could be the domestic like product. Reading the petition it seems that maybe there's a continuum of insulator products throughout the different voltages. If you could address why the lower voltage insulators shouldn't be included in the domestic like product. This would be for your post-conference brief.

MR. SHELDRICK: We'll certainly do so.

MR. HALDENSTEIN: And be suer to address the Commission's domestic like product factors.

MR. SHELDRICK: We will.

MR. HALDENSTEIN: Also earlier in the testimony I heard a discussion of the glazed insulators. Maybe this is something for your post-conference brief as well. If you could discuss the added cost of producing those insulators, what that is.

If you could clarify what you meant by environmentally contaminated environments. I wasn't sure what you meant by that.

And something you could address here, would you say that demand remains strong for this product? Has it been strong throughout the period of investigation?

MR. JOHNSON: You're referring to the special glaze material?

MR. HALDENSTEIN: All products.

MR. JOHNSON: The demand has not remained strong, no.

The demand has fallen off significantly on incoming orders for Lapp beginning in the second quarter of 2002 which manifests itself into slower shipments beginning in the third and fourth quarter of 2002.

MR. BOLTUCK: To clarify the profile, even over this limited period of investigation that we have in this case, this industry is subject to fluctuations in demand they've been important during the period of investigation. As we all recall there was an energy crisis that made the headlines back in 2000 and that stimulated a lot of new investment downstream and created a rather strong market, a growing market.

1999 was a recovery year feeding into that growth. 2000 and 2001 were very strong years extending into the first, maybe a few weeks into the second quarter of 2002. The market weakened noticeably by third quarter of 2002 where it remains today.

So that's our take on sort of the profile. It's up and down. Our whole causation argument is really that regardless of where we have been in these fluctuating demand conditions we've been under-performing where we should be given the state of the market.

MR. HALDENSTEIN: I have no further questions.

MR. CARPENTER: Mr. Thomsen?

MR. THOMSEN: Hi there. For the record this is Craig

Thomsen, Office of Economics.

I guess just a general question, this could be for anyone. How often do these high voltage station post insulators need to be replaced?

MR. JOHNSON: I think all of us have experiences of pulling 1920 insulators out because they were worried that they would begin to fail, but effectively our customers have the expectation that they last a very long time. There is no planned obsolescence in the product.

If there's a problem in the field dating back 20, 30, 40, 50 years, customers send it back to us and say what happened? So a very long time.

MR. THOMSEN: Even still I know there needs to be some sort of replacement, say some kiddies throwing rocks at your insulators, something like that. What percentage of your sales are new sales and what percentage are replacement sales?

MR. JOHNSON: I don't have those numbers with me but we'd be happy to dig into those at the post-conference brief. In the last couple of years it's been largely new projects. In the normal market levels there is more maintenance and replacement. So we can clarify that.

MR. THOMSEN: Okay.

MR. STANLEY: This is Rick Stanley. I'd like to add one thing to that. I think that part of what we're seeing

in the domestic market right now is change-out due to the system outgrowing the voltage capability. So there may be cases where good insulators are taken out of service so that the line can be upgraded. That plays back to the interchangeability that, typically you can't replace the medium voltage with the ultra high. You have to do a change-out to meet the electrical and mechanical requirements of the product.

MR. THOMSEN: Okay. That's very helpful. Thank you.

Relatedly, there has been a little bit of talk of the non-ceramic station posts. What percentage of the market would be covered by the non-ceramic? You noted there is a producer of non-ceramic high voltage station post insulators.

MR. SHELDRICK: We believe the market, and my friends will correct me, is one percent of less for this product category.

MR. THOMSEN: Has it been growing? And if so, how quickly?

MR. JOHNSON: Not very much and not very quick. They're much more expensive and they're really special application type products at this point.

MR. BOLTUCK: I would just add that we don't really think of it as the same market. You can do the arithmetic calculation and say it's less than one percent, but from an

economic standpoint it's not really the same market. People who buy the polymer type products, for instance, have special needs for that material and wouldn't otherwise pay the immense premiums involved in polymer-type products. So it really separates them.

MR. THOMSEN: What type of premiums are they?

MR. JOHNSON: The limited market data and the feedback we have says that they're 60 percent to 100 percent higher.

MR. THOMSEN: Also going along the lines of what these are used for, what type of products do the OEMs use the high voltage station posts for? We have seen them in substations, but you've noted that some of your sales in the industry are to OEMs. What type of products would we see these in?

MR. STANLEY: The OEM customers that we deal with use our product in the development of their equipment. They manufacture, in particular the switch manufacturers, manufacture product that gives the utility an opportunity to open the switch and take a portion of the line or the substation out of commission so that they can do work.

The insulators are used in the operation of the switch and the switch is used to open, close and divert electricity to where it's needed through that process.

MR. JOHNSON: Some of the pictures you saw actually were switches that were in a substation, that the insulators

were probably provided to the switch manufacturer which put it into the substation alongside the other insulators.

MR. THOMSEN: So these station post insulators are used in conjunction with other types of materials, other types of electrical equipment in there. You had noted in your testimony that it's a small portion of it. I believe it was Mr. Boltuck who said that.

Do you have any kind of estimate on say a substation, what percentage are we talking about? Are we talking five percent? Are we talking .01 percent?

MR. JOHNSON: We estimate for a nominal size substation less than five percent.

MR. THOMSEN: How about for generation? Would it be even smaller then?

MR. JOHNSON: Yeah. If you're including the cost of the generation plant, it begins to become very insignificant.

MR. THOMSEN: We've also heard about what's happening in demand in the United States, but we've also heard that you're exporting to about 50-odd countries. What's been happening for demand in station post insulators throughout the rest of the world? Canada and Mexico, obviously those are the closest, but also you noted that NGK is opening up some plants around the world. What's been happening around the world?

MR. JOHNSON: Canada has been relatively flat for many years. Quebec has been a little bit more active but the majority of Canada has been very slow.

Mexico has demand but they have not released funds for the majority of their projects. So when the money gets released then there's projects in Mexico. In the past two years or so there's not been a lot of money released but there has been some business.

South America, Brazil has had a very strong market but it's served by its domestic manufacturer. Other regions of South America we followed the economies. They're either every small markets or their economies certainly are not in a position to expand significantly today in the substation arena.

There's business, don't get me wrong, but it's not a sustainable amount of business for any of the domestic manufacturers to count on so to speak as large volumes.

In Europe it's largely supplied by domestic manufacturers. There are opportunities that are occasionally achieved.

The same in the Middle East, the demand is largely provided by European companies, as well as NGK. Again, we do participate in the Middle East on occasion. It's a big market and there is a lot of activity in the Middle East.

MR. THOMSEN: When you say a lot of activity does that

mean the market is growing, the market is shrinking?

MR. JOHNSON: The market is growing.

MR. THOMSEN: And that's for Europe, for the Middle East --

MR. JOHNSON: It's not growing in Europe, maybe nominal growth. One percent, something like that. The Middle East is growing. Certainly not double digits but three, four, five percent.

Really the biggest opportunities in the world markets are in the Far East. There's some double digit growth in China specifically.

MR. THOMSEN: Switching gears a little bit, you noted in the petition about blanket agreements. Just in terms of sales arrangements, what does a blanket agreement necessarily provide? Is it pricing, is it quantities, is it minimum quantity? What can we see in a blanket agreement?

MR. KNICKERBOCKER: Typically the blanket agreement would set prices for a fixed period of time with typical quantities that would be expected and an expected lead time for delivery, typically again short.

The blanket agreements are not hard and fast contracts. When you have a blanket agreement with a utility company, if there is subsequent offers for lower prices typically we have not found that the utilities will come back and ask us to follow suit.

On the other hand with OEMs, as soon as some competitor goes back in during the period of a blanket contract and offers a lowered price of any significance, the customer is back at the doorstep of the blanket holder expecting and receiving the lowered prices.

MR. THOMSEN: You'd also noted there are a certain percentage or a certain amount of sales that go through sales agents and I believe Lapp had provided some numbers on that. I was wondering if in a post-conference brief whether both Newell and Victor would be able to provide those types of numbers.

Also relatedly, the commission rate for sales agents for both of the other producers.

I believe that is all the questions that I have.

Yes, Mr. Stanley?

MR. STANLEY: Mr. Thomsen, I'd like that question you just asked about the sales agents, I'd just like to note that we will respond to that. But other than just a couple of house accounts, our company deals exclusively through sales agents throughout the country.

MR. KNICKERBOCKER: That's also the same for us and we'll be glad to provide details in the post-conference brief.

MR. THOMSEN: Wonderful. Thank you.

I have no further questions.

MR. CARPENTER: Mr. Boyland?

MR. BOYLAND: I have reviewed the financial information submitted. Since it's company specific I do have follow-ups which I'll be phoning the various individuals as a kind of a blanket request to all the respondents.

I would like to see the internal profit and loss statements for the activity which includes subject merchandise, post-conference briefs.

I have no further questions.

MR. CARPENTER: Mr. Cutchin?

MR. CUTCHIN: I don't have any questions at this time. Thanks.

MR. CARPENTER: Mr. McClure?

MR. McCLURE: Jim McClure, Office of Investigations. All this to say that other than to observe that there may soon be a growth market in downtown Baghdad, I have no questions.

I would advise Mr. Sheldrick that you have seven minutes of time left.

MR. SHELDRICK: Can we hold that over to the rebuttal, or is it a lose it or use it now?

MR. CARPENTER: Actually in conferences we don't hold it over. Everyone gets ten minutes for closing and rebuttal statements regardless of any time that you had remaining.

MR. SHELDRICK: I think I'd simply add than, in

conclusion at this stage, that you will see that the three companies here are somewhat different. This is not a case where you have three producers who are all manufacturing exactly the same way with the same product mix. These are companies with, in some respects, different marketing strategies.

But I think the one thing that they have in common which I think came out of the remarks and the questions is they're all facing fundamentally the same problem now. They are facing a period of a substantial market downturn. At the same time the prices have been very substantially depressed. They've not had the benefit of being able to earn a reasonable return during the past few years when demand has been strong. So they now find themselves at an extremely vulnerable point, very vulnerable to the effects of increased dumping.

I think with that we will conclude our presentation. Thank you very much Mr. Chairman, members of the staff.

MR. CARPENTER: Thank you. I do have a few follow-up questions.

MR. SHELDRICK: Oh, okay. I'm sorry. I didn't mean to cut you off.

MR. CARPENTER: First of all a couple of product-related questions. Just for clarification, do the petitioners who are represented here also make the medium

voltage ceramic post insulators?

MR. KNICKERBOCKER: Victor Insulator does, a full line.

MR. STANLEY: Newell does, yes.

MR. JOHNSON: Yes.

MR. CARPENTER: Okay, all three of you do.

Do you make them in the same plants and on the same equipment and with the same employees as the high voltage?

MR. STANLEY: For the most part, yes. We use the same plant, the same employees. Some of the equipment is -- Some equipment is used just for the medium voltage, but some of it can be used in both processes.

MR. JOHNSON: Of the highest volume designs there's about six that represent 50 or 60 percent of that market. Three of those we manufacture in a different plant, and three of those we manufacture in the same plant. Some of the equipment's the same. The clay-making systems, the kilns. However, the machining equipment is significantly different.

MR. KNICKERBOCKER: For us also the clay-making equipment is identical. The kilns are different. We have a break in our turning operation that starts at about 46 KV. So 46 KV, 69 KV. We can use some of the same equipment as we use for 115 KV and above. Anything below 46 KV is made on totally other equipment.

The new equipment we installed is used exclusively for

115 KV and above. We do try to use employees throughout the plant. They are interchangeable.

MR. CARPENTER: I understand that the IEEE standard does not call for any voltages between 69 and 115. I was wondering is there any production in the U.S. for export to other markets or production overseas that might fall within those parameters?

MR. JOHNSON: Nothing substantial, no.

MR. CARPENTER: Okay.

The petition mentions that there are three basic groups of insulators -- station posts, suspension bells, and line posts. I was wondering if you could tell us a little bit about what the suspension bells and line posts are used for and whether they can ever be used in the same applications as the station posts.

MR. JOHNSON: If you had the pictures in front of you you would see a product that looks like a series of bells that are strung together which are effective products that are in tension. They support transmission lines. Really, there's no common application between suspension bells in the domestic market and station posts.

Line posts are products that are typically mounted, in higher voltages mounted horizontally on a pole to support, again, transmission lines. Again, no similar application to station posts which are almost always mounted vertically or

at some angle, maybe a 45 degree angle inside of a switch.

I'm sorry, what was the third?

MR. CARPENTER: Those were the two. The station posts were the third.

MR. JOHNSON: There is another one which is called apparatus housings which is a product that's hollow and some type of device goes on the inside. Whether that's a bushing or a circuit breaker or some other device, transformer. Again there's no common application of that product.

MR. SHELDRICK: Robert, are the pictures that have been submitted marked to show the type of insulator in question?

MR. JOHNSON: No they're not at this time.

MR. SHELDRICK: What I think might be useful is we can identify on each of the pictures that we have put into the record the type of insulator involved. Some of the pictures were actually put in to demonstrate the difference between the size and design of station posts versus suspension valves, so we'd be happy to mark those individual pictures in some way to indicate exactly what it is the picture shows.

MR. CARPENTER: What I would ask then is if you could just take those back with you and label them, and then you can submit them as an exhibit to your post-conference brief.

(Exhibit 1 will be withdrawn and resubmitted with the post-conference brief.)

MR. SHELDRICK: That's fine. We'll certainly do so.

MR. CARPENTER: Another clarification question related to the petition. As I read it, you're talking about three channels of distribution -- sales to electric utilities which you say currently account for about 40 percent of domestic sales; sales to packagers account for roughly 40 to 50; and sales to OEMs account for the remaining 40 which adds up to about 120 to 130. I assume there's --

MR. SHELDRICK: We will correct those numbers. That's a typographical error for which I apologize.

MR. CARPENTER: I assumed that. I just wondered which one was the --

MR. SHELDRICK: We'll submit the correct numbers in the post-hearing brief.

MR. CARPENTER: Thank you.

There's also, in the discussion of value-based indicators versus quantity-based market shares there's a mention that the Japanese product is lighter in weight for the same strength and performance compared with functionally identical domestic products. I was wondering if that provides any advantage to the imported product in terms of ease of installation or maintenance?

MR. SHELDRICK: I believe, and I'll defer to my colleagues, but these units we're talking about are typically installed by cranes. They're not the kind of

things that a man would climb up a pole and put in place. So I don't think the weight is such an issue, but I'll --

MR. JOHNSON: That's correct. In the installation of the products in the field there's really no significant advantage of it being lighter. Again, no man is going to pick it up or woman is going to pick up that device anyway.

MR. CARPENTER: Not at 1200 pounds I guess.

A couple of related questions on demand also, following after Mr. Thomsen's questions.

First of all I believe Mr. Johnson, you said that demand dropped off in the second half of 2002. Could you again just describe what the causes were that led to that drop off in demand?

MR. JOHNSON: Absolutely.

Really the impacts are fairly well chronicled in some of the data you can get through FERKER, various press releases. But really the start of the pull back in demand of the markets kind of came out of what in the industry we call the Enron effect which was the beginning of very high scrutiny of the investments that companies like Enron, Kelpine Dynogy, others were making into the wielding of power and the trading of power to the industry.

As some of those issues came to bear and came to light, the credit markets started to tighten up in the utility industry and banks and other financiers were not interested

in continuing to invest in that market space. So really as an outcome of that source of income and investment for the utilities, projects began to be delayed and canceled, or again delayed into several years out in many cases.

One of the outcomes of that continued to be the financial troubles that we're seeing many utilities go through which again has caused them to contract their spending. As well as the recession. The general recession and slow-down in industrial production has caused a decrease in demand. So really there's about three hits all at the same time that started showing the real strong weakness in incoming orders in the second quarter of 2002.

MR. CARPENTER: What about the economy in general or new construction? Does that play a role in the long-term demand for products like this?

MR. JOHNSON: It does. We certainly see a lag in the economic growth to the installation of significant amounts of power, at least from the generation and transmission side. If you have a significant increase in industrial production next week we don't have a bunch of insulator orders. But indeed as the gap between supply and capacity or demand and capacity at the utilities closes down, the utility engineers start getting a little bit nervous when that approaches about 10 percent. When that gap gets to about 10 percent you run into things like peak usage

blackouts. For example, hot summer days where there will be a blackout, so there tends to be a push for investment at that time period.

But you need a lot of demand to start causing the need for purchase.

MR. CARPENTER: When you have the energy shortages and the blackouts, what kind of a lag is there between those occurrences and when there's increased installation of these insulators?

MR. JOHNSON: Quite often that's impacted largely by where it happened and who's in office at the time, political office. For example in Chicago Mayor Daly instantly increased funds for the restructuring of Commonwealth Edison's infrastructure. In California it took a lot more time. I think they clearly regretted that.

So it depends on everything from the regional politicians to available funds of the utilities so there's quite a variety of things that can impact that.

MR. CARPENTER: You mentioned there's no planned obsolescence in these products, but is it true that over time there's increased voltages being generated, transmitted, and distributed, and that requires higher capacity insulators to be installed?

MR. JOHNSON: To Rick's point, which is a very good one, that does happen. But more than the insulator is

changed out in that case. If you, it's called up-fit a substation, you're changing out very expensive equipment like transformers, circuit breakers, the cable quite often. So it's a source of increased capacity that a utility will put into place, trying to take advantage of the right of ways that they have for the existing substation. Because quite often the largest cost component of the a substation can be right of way or transmission line.

MR. CARPENTER: Thank you very much for your testimony.

Do any others have questions?

(No audible response)

MR. CARPENTER: We'll take a recess until about 11:22 on the clock back there.

MR. SHELDRICK: Thank you very much.

(Whereupon, a brief recess was taken.)

MR. CARPENTER: Whenever you're ready.

MR. CASSIDY: Good morning. I'm Robert C. Cassidy, Jr. I'm a partner with Wilmer, Cutler & Pickering, and I'm appearing before you this morning on behalf of Lock Insulators, Inc., and NGK Insulators, Ltd., Japan.

I'm accompanied this morning by Mr. John Dippold who is Vice President, Operations Manager for Lock Insulators, Inc. And I'd also like to introduce to you Mr. Jack Hiroma who is with the NGK Insulators, Ltd., Power Business Group in

Japan.

We will start this morning with a statement by Mr. Dippold. I then have a few words to say and then we'll be available to answer your questions.

MR. DIPPOLD: Good morning. My name is John Dippold. I'm the Vice President and Operations Manager of Lock Insulators. This is my second time to be employed by Lock. From '80 to '82 I was an engineer serving in a technical capacity at Lock. I returned to Lock in '91 filling various positions, technical and managerial, until 1991 when I filled this position. In between those two times I fill other positions in other companies that are not related to this industry.

What I want to do today is address this issue that's been raised about Lock and NGK dumping insulators on the U.S. market for the purpose of eliminating domestic competition.

To do that I have three parts. I want to tell you about Lock, briefly its long-term history and what it's done recently. I'm going to give you Lock's view of the marketplace. And then the third thing would be to relate those two. How can we meet Lock's goals and the needs of the marketplace at the same time?

Lock is an old company. It's over 100 years old. It started in New York, as previous testimony was given. It

moved to Baltimore in the early '20s. The facility was built to manufacture insulators as it does today.

GE had assumed ownership very early on in its life and continued to own Lock until 1974 when NGK acquired 60 percent ownership. Through the years NGK gradually invested in the company until it owned the company completely in 1989.

The '90s were not a good period for Lock. At that time coming into the '90s they made three product lines -- suspension, a hollow core apparatus, and station posts. In 1995 they were forced to eliminate the suspension insulator product line due to competition from lower cost polymer insulators.

Lock continued to manufacture two product lines until 1999 when through analysis it concluded that it could not justify the investment and the necessary time and effort from all of its employees to make apparatus more profitable.

With that analysis that went on for an extended period of time it was also realized that by focusing on posts, Lock had the potential for a great many benefits. With those two conclusions it made a plan. It made a plan to eliminate the production of apparatus insulators and to focus on station post insulators. That plan had several aspects.

One was that lower cost was of paramount importance. The goal would be to become the lowest cost producer and we

set out many projects that wrapped around the fact that we had through the '90s eliminated two product lines and had a good asset of the facility and that we could start again and essentially wipe the slate clean and start with the new design of a facility using the assets that we have in place to become very productive and lower costs.

Another goal was to reduce lead time. This is very important in the marketplace. So knowing we would be better placed within the market if we had lower costs and reduced lead times, we engaged that concept and set out on the project.

In 1999 we essentially wiped the plant clean. We removed all the equipment, or virtually all the equipment that stood in the way of our plans to increase capacity to focus on station posts, and to lower costs.

Basically what did we do to do this? To lower costs there were four aspects. We had to improve productivity. Early, before 2000 in the late '90s we had developed a productivity improvement program focusing on direct labor at that time. We instituted that and an increased focus on that and received benefit through the years 2000, 2001 and today.

Today we're transiting that to more focus on indirect labor, but still we deal with direct labor.

Items such as training was a source of focus because it

allowed us to acquire new people, and certainly that fit in with our plans because another aspect of our plan was to increase capacity. That required that we hire people. We've increased employment significantly during this period starting in 2000.

With capacity, you can envision that we had a plant that had three different product lines and they comprised approximately one-third of our sales volume and approximately equal employment. This was in a very large plant. We had to fill this large plant with other production, in this case station posts, to make it viable, to make it efficient.

With that effort we had to rapidly train people. We had to engage them to be productive and to get them to use, to acquire the skills necessary to do the job.

Previously and through '98 and '99 we had been increasing the facility, the capital equipment for the manufacture of station posts and with that plan we had to rapidly increase it to satisfy the needs.

Basically through that period from 1999 through into 2002 we almost doubled the capacity of manufacturing for greater than 69 KV.

Another thing that we focused on was yield. With any porcelain product, and particularly with porcelain insulators, yield is very important. If you have low yield

you have short lead times or you disappointed customers with deliveries because the products they have ordered didn't turn out to be good and they're not shippable. Also it increases costs.

Also we had engaged in many projects that we planned in '99 and in 2000 to improve the cost of manufacturing insulators. We've reduced costs in every aspect of raw materials which would be clay, the end fittings, the hardware that attach to the insulators, the packaging. Natural gas was a big concern. We had been active in the futures markets and we controlled gas well through that period.

Many efforts all hinged around the fact that we made a plan in '99 to focus on posts and become the low cost producer.

We also sought to satisfy the needs of the factory, that we wanted to increase capacity. We set out and developed more products. We had to expand the capability of our production unit.

We increased the strength capacity of our 500 KV product line. That's a lucrative product. And because we're able to make that in Baltimore we can fill more of our capacity and gain more sales.

Also the semi-conductive insulators, we had been making them starting in about the mid '90s but we focused on that

and dealt with the high cost issues that we had with manufacturing semi-conductive insulators and we reduced the cost and became a much more reliable producer of semiconductive insulators.

In fact we were through this period of discussion were the sole -- all insulators sold were manufactured in Baltimore.

Today we have benefitted from this effort. We have become profitable. We were profitable in 2000 and we've increased our profit in each year. We've increased our employment in each year through this period.

Today we recognize the market, and that's what I'll discuss next.

MR. DIPPOLD: Obviously, something has been made for over 100 years and there's not many innovations and my personal experience, have not seen innovations as a product. Quality is not so much of an issue. It's important for all manufacturers to focus on quality, because customers once disappointed are hard to get back. But, generally, if you meet the spec, it's price and delivery. It's typical, from my experience, of a very mature market and that's why we focus on price and delivery.

We see three customers: the OEM, the original equipment manufacturer; the utility; and the packager. We see a distinction between them.

The OEM, mostly to Lock, they purchase on blanket. And a blanket is a contract. It fixes the price for the general items that they purchase. It does not fix the quantity that they're require to buy, nor does it fix our lead times. It's simply a price fix. It does not require that the customer come to us exclusively. Generally, the view is that they know they have a good price with us and they'll come to us and buy from us. If we don't give them the delivery time, then they are essentially free to go elsewhere.

Now, that is something that's -- it's been working for Lock for some time and while it doesn't fix quantity, it gives us responsibility to satisfy their needs. So, we, no doubt, take some of our capacity to it, it at least gets them to know what price we have. It's a structured contract or relationship for that time period, usually one year.

Utilities and the packagers -- a packager is essentially a service company. They provide engineering and they'll provide some procurement services for a utility. A substation would be a good example; that they would design the substation, determine what is to be purchased, go out, get the prices, and get commitments from companies to buy it. Then the utility then finances the -- or funds the endeavor; in this case, to build the substation. They'll get the contractor. They may have a strong relationship

with a contractor and they'll bring the materials in, build it to the design.

We want those two together mostly -- it's not exclusively -- but mostly they buy on the spot market. So during a period of where price declines, prices may decline more quickly or likely to decline more quickly, because they work in the spot market. They don't have that one-year blanket.

The period of discussion, the demand served, price. We do view, during this period, that the price continued to decline. But, in fact, the price decline started before 2000. It started before this period that I'm going to discuss, and that there was no clear leader in this price decline. In addition to Lock, there are three domestic suppliers, as well as Ceram. And then on any given order, we cannot predict who will receive that order. We see that all five members or all five suppliers participated in the price decline equally. They simply had to lower the price, if they felt they needed that job, and they had to compete equally in the marketplace.

The other thing that's important with the station post insulators is delivery time, and that is something that's also become a competitive objective of the customer. They want to reduce the lead time. Frankly, it does take a long time. If you buy a porcelain station post insulator

and it's made to order, depending upon the backlog and the process time, it can take two to three to four months to deliver. Process times for all manufacturers is months, several months, two months approximately.

Ceram is one that has an advantage, in that they -- at least one facility isostatically presses and if they're supplying station post insulators from that plant, they can shorten their lead time some. But the others are all required essentially to exclude, to finish, to dry, to glaze, and to fire. And they are lengthy processes in each step. Some of those steps can take weeks or days at a time.

I'd like to talk about the market, in general.

MR. CASSIDY: For the record, there's an exhibit.

MR. CARPENTER: Okay, we will accept this as Respondent's Conference Exhibit 1. It's a chart that's based on NEMA Station Post Sales date for the years 1978 through January through November of 2002.

(The document referred to was marked for identification as Respondent's Conference Exhibit 1 and was received in evidence.)

MR. DIPPOLD: And basically on this chart, there are two points I want to make. One is, it does demonstrate that there was a surge in the market. And we feel, not

unlike the previous testimony, it was due to the increase demand due to power generation increase, financing of power generators. Independent power producers were buying generators and station post insulators are a required material.

But, we say that there's no apparent cycle with this. The previous demand was 1989 and 1990. That was due to an expansion in transmission line construction. So, we don't see that there's a cycle. We think that you can predict somewhat. There is a slope, but you don't know and we can't see what the magnitude was -- or we didn't know or couldn't tell the magnitude of the demand or that it was going to increase essentially in 2001 to a record level.

We, also, see that the demand surge is over, that it did indeed start to decline in the third quarter of last year; but, that, you know, it's not a valley. It's not down to a dangerous level, at this point.

So, I discussed Lock and I've discussed our view of the market. I'd like to discuss how we're going to put those two together.

Lock, we increased capacity. We took out the product lines. We had to increase capacity of station posts to become a profitable -- not to become a profitable operation, but to become the profitable operation that we are today. It's very important, our capacity.

And when this market boom occurred, we needed to expand more rapidly than we anticipated. We did not see it happening this quickly. And while we had plans in place, we had some of the equipment. We had to build more equipment. We had to make changes. We had to hire people and we had to train them and bring them on line. But the problem was, we couldn't do it quickly enough. We had a plan that required us to increase capacity and we had to make sure that we could fill that capacity.

So when we concluded that we could not expand quickly enough, we called on NGK to help us secure and maintain these customers. We needed to maintain this base, so that when demand surge passed, we still had a good base to satisfy our capacity. If Lock could not serve the customer fully, we would lose them and they are very hard to get them to come back, to get them to return to Lock. Essentially, we treated the insulators that we purchased from NGK as the same as we purchased -- that we make at Lock, and we filled orders indiscriminately with the supply.

So, in summary, because Lock has increased its capacity and because the demand has been reduced, we are not placing any new orders to Japan. That is our status today. The last order to supplement capacity was placed in October. That will be delivered in April. So for the insulators that we're discussing, the high volt and ultra extra voltage

insulators, we're finished using NGK insulators.

We have reduced cost. We have reduced lead time. This led to our success. We have a good employment base that we've increased over the past three years and we're continuing to work hard to maintain that. Just to reiterate, we've made profit every year -- an increasing profit I should say, every year and during this period. And this is done with insulators made in Baltimore. And we're prepared to sell at the prices and make money at the prices that are set by the marketplace today.

That's it. Thank you.

MR. CASSIDY: Mr. Chairman, this is a case about domestic competition. Lapp Insulators and Lock Insulators have been competing with each other in the U.S. market for almost 90 years. That competition has taken a strange twist, which is why we are here today.

We've heard this morning that Lapp is having problem and the confidential information on the record offers some insight into the cause of these problems, which we will talk about in our post-conference brief. Publically available information suggests that Lapp may have imposed a substantial financial burden on itself by its 1998 leverage buyout and its 2001 acquisition of Ceram Tech, a European insulator producer.

Whatever the real cause of Lapp's problems may be,

it is clear that Lapp has misunderstood what is going on in the U.S. market for station post insulators. And based on this misunderstanding, Lapp is attempting to solve its problems with an antidumping case. Needless to say, the dumping statute cannot protect one domestic producer from competition with another domestic producer in the U.S. market. For this reason, even if a dumping order were to be imposed in this case, that order would have absolutely no affect on the conditions of competition in the U.S. market about which Lapp is complaining.

What are those conditions? Fierce competition among four producers, domestic producers; two major offshore producers: the American-owned Ceram in Europe and NGK in Japan; and several new exporters in Brazil, India, Germany, et cetera.

As we have heard this morning, Newell and Victor increased their production capacity during the POI and Lock, which was already much larger than Newell and Victor, has substantially increased its production capacity for station post insulators and has reduced its cost and its time to delivery. As a result, in the case of Lock, it has improved its financial performance and increased its market share without aggressive pricing.

And on this point, I suggest you take a careful look at the pricing information that is on the record and

that we will add to the record, because we believe it confirms the fact that there is no consistent low price seller in the U.S. market. Different companies offer the lowest price at different times and on different products with the result that no one knows who will win any given sale for a given product.

Another consequence of Lock's improvements in its production capabilities is that it will no longer import from Japan any station post insulators it can make in Baltimore. Lock placed its last orders for station post insulators with NGK last fall, long before this case was filed, and the last shipments will arrive in Baltimore in April of this year. This means one offshore supplier, NGK, will no longer be in the station post market in the United States. And I should note that the theories of Jacob Biner notwithstanding, it is public information in Japan that NGK is considering reducing its production capacity in Japan.

Given the increased capacity of Lock in Baltimore and the availability of station post insulators from suppliers like Ceram in Europe, the absence of NGK will have no affect on conditions of competition in the U.S. market, as far as we can make out.

From Lapp's perspective, this case is an exercise in futility. If a dumping order were to be imposed, it would have no impact whatsoever on competition in the U.S.

market and would not generate any Byrd amendment payments.

From the Commission's perspective, this is a case in which you should make a negative determination. The price decline Lapp complains about started long before Japanese imports increased and there is no evidence that Japanese imports are underselling or otherwise suppressing price levels in the U.S. market.

As to threat of injury, that is a no-brainer. When the only exporter stops taking orders for the U.S. market before a dumping case starts, there can be no threat of injury, it seems to us. And with that, we would like to conclude and answer any questions you may have.

MR. CARPENTER: We'll start with Mr. Fisher.

MR. FISCHER: Thank you for your testimony, as well. Fred Fischer, Office of Investigations.

Mr. Dippel, I just wanted to refer quickly to the exhibit, Respondent Exhibit 1. There's no data for 1983 and 1984. I'm just wondering if there's a reason.

MR. DIPPOLD: There was a reporting problem. I can explain it to you later.

MR. FISCHER: Okay.

MR. CASSIDY: (Off mic.)

MR. FISCHER: Okay. I wanted to get a sense of -- the products that have been imported are NGK insulator production for Japan, those products that have been

insulated, you had mentioned that some of them were similar to products produced by Lock Insulator here in the United States. But are there products that are specialized or particular products that are produced in Japan, but they are not produced here in the U.S.?

MR. DIPPOLD: Yes. I can't identify them specifically, but a very low portion. Less than a half of percent of total station post insulator sales through Lock are insulators that cannot be made at Lock. It's a very specialty type of shed design, but it's a very small quantity.

MR. FISCHER: So I just wanted to be clear that the entire product line that Lock Insulators sells now or will be selling will be produced only in the U.S.? In other words, there are not certain products that your firm would be selling that would just be imported from Japan. I think you're clear on this. I just want to be clear.

MR. DIPPOLD: Yes, clear.

MR. FISCHER: Were semiconductor insulators imported from Japan during this period?

MR. DIPPOLD: No.

MR. FISCHER: Does a purchaser typically know or care about the origin of the insulator, where it is produced?

MR. DIPPOLD: Typically not.

MR. FISCHER: So, a contract doesn't specify?

MR. DIPPOLD: No. And we had orders where when we would plan to use NGK insulators, we would change it to Lock and then change it back. It was common.

MR. CASSIDY: As a footnote, we know at least one customer that has specified they wanted U.S. origin product and we did, as far as we know, only supply them with U.S. origin product. But, that was an exception opposed to the rule.

MR. FISCHER: To the extent that you have any documentation on that, you could supply that.

MR. CASSIDY: (Off mic.)

MR. FISCHER: To the extent that you could submit that, if you haven't already in your questionnaire response, in your post-conference, that would be helpful.

Those are all of my questions for now. Thank you.

MR. CARPENTER: Mr. Haldenstein?

MR. HALDENSTEIN: Mike Haldenstein, Office of the General Counsel. I would like you, also, to address the issue of domestic like product in your post-conference brief and just explain whether you agree or disagree with what the petitioners have proposed.

MR. CASSIDY: Of course we will. I must say, we don't know why they picked the 69KV cutoff, so we will have to leave it to them to explain and defend it. But, we will

be happy to comment on that.

MR. HALDENSTEIN: And explain if you're proposing a different domestic like product.

MR. CASSIDY: We are not.

MR. HALDENSTEIN: With respect to related parties, if you could explain whether you believe Lock should be excluded from the domestic industry based upon the imports they've acknowledge occurred during the period of investigation and explain whether you think they benefitted unfairly from those imports.

MR. CASSIDY: We will address this in the brief at some length. But let me say in shorthand, that we think they should be included and that all decisions by Lock about its production in Baltimore are made in Baltimore based on its analysis of the U.S. market. But, we will address the issue in the brief, in more detail.

MR. HALDENSTEIN: Also, I wasn't that clear on why the imports from NGK came in during the period, which Lock was expanding their capacity. Was it, you took too many orders and you couldn't fill them with your capacity? Or what exactly occurred and why that has ended now?

From what I understand you to be saying is that there won't be any more imports -- there won't be any subject merchandise coming in from Japan in the future. Is that --

MR. CASSIDY: What was going on was that we tried -- we had planned to increase capacity before the boom came. It was fortuitous that we had made these plans and begun to implement them. As the boom came, Lock attempted to accelerate its already existing plans to increase capacity. But the increase in demand outstripped its best efforts to increase capacity. So to keep its customer base intact during the boom, it brought in imports from NGK Japan.

And at the peak of the boom, it's clear that the demand for product from Lock customers exceeded even the theoretical capacity, had it been completely in place. So, there was a brief period when demand was beyond what Lock could supply today, now that it's achieved its capacity goals. But, that was a very short period. It was this bubble in station post insulator demand.

MR. HALDENSTEIN: I have no further questions. Thank you.

MR. CARPENTER: Mr. Thomsen?

MR. THOMSEN: Thank you, again, for your testimony. I just have a couple of questions. First of all, with respect to a question that I had asked petitioners, with respect to the sales agents, do you employ independent sales agents?

MR. DIPPOLD: We'd have to answer that in writing.

MR. THOMSEN: Okay, that is fine. And if you

could in writing, when you answer that, if you could tell me what percent of your sales are through the independent sales agents and what their commission rate is, using 2001 as a reference point.

MR. DIPPOLD: Use 2001?

MR. THOMSEN: Yes, just use 2001 as what their average is.

Also, what range of products has NGK produced, in terms of voltage? You had noted that you didn't know why the 69 kilovolts was chosen as a cutoff point. I just wanted to know --

MR. DIPPOLD: You mean, NGK in Japan?

MR. THOMSEN: Lock here, NGK in Japan, both.

MR. DIPPOLD: Well, I can't -- I need help to answer for NGK. Our maximum voltage is 500K.

MR. THOMSEN: What's your minimum voltage?

MR. DIPPOLD: It's 11KV.

MR. THOMSEN: Excuse me?

MR. DIPPOLD: Same in Japan.

MR. THOMSEN: Okay, thank you. And do you mostly ship solid, hollow, or cavity core?

MR. DIPPOLD: Only solid.

MR. THOMSEN: Only solid. And how has the market changed with respect to solid, hollow, and cavity core?

MR. DIPPOLD: We've only sold solid.

MR. THOMSEN: Do you know how the market has changed over the past years?

MR. DIPPOLD: I cannot respond to that. I can respond to that later.

MR. THOMSEN: Okay.

MR. CASSIDY: We'll respond to that.

MR. THOMSEN: Thank you. I ask just in general if -- you had noted that you're not expecting to import any more station post from Japan. Why are you opposing this action, if it's not going to have any affect on your company?

MR. CASSIDY: Why are we opposing this?

MR. THOMSEN: Why are you opposing the action, if you are not planning on --

MR. CASSIDY: We are opposing the action, because our competitors are using it by going to our customers and telling them that they can no longer get product from us, which, of course, if untrue, but it does have an effect in the marketplace.

MR. THOMSEN: Okay. Thank you, very much. No further questions.

MR. CARPENTER: Thank you.

MR. BOYLAND: Good morning. Thank you for your testimony. I haven't actually seen your questionnaire yet; but, if you have not submitted your internal profit and loss

statement, I would like to see that.

Also, with respect to the financial performance on station post that you provide in the questionnaire, I would like a statement regarding how you segregated out and basically isolated this to just U.S. produced --

MR. DIPPOLD: We'll have to give that to you, in addition to --

MR. BOYLAND: Okay.

MR. DIPPOLD: -- in the post-conference brief.

MR. BOYLAND: I have no further questions.

MR. CARPENTER: Mr. Cutchin?

MR. CUTCHIN: John Cutchin, Office of Industries. With respect to the issue of ceramic versus non-ceramic insulators, do you agree with the petitioners that really the non-ceramic is not a factor in the marketplace?

MR. DIPPOLD: It's not a significant portion of the demand.

MR. CUTCHIN: So, you don't believe that we should consider it as a --

MR. DIPPOLD: I think we'll give you a review in writing.

MR. CUTCHIN: Okay, thank you. That's all I have. Thank you.

MR. CARPENTER: Mr. McClure?

MR. MCCLURE: Jim McClure, Office of

Investigations. I know that, obviously, 2001 saw the record level of consumption. And you're saying, at this point, your capacity is such that even reaching a record level again, you could service all of your clients from the Baltimore facility.

MR. DIPPOLD: I did not say that. I don't know that that would occur, if we experienced that type of demand surge again. We can satisfy our customer's demand at today's levels from Baltimore.

MR. MCCLURE: But where we to achieve the 2001 level again, you aren't certain whether you could?

MR. DIPPOLD: That's correct. I can't say that.

MR. MCCLURE: Okay. With respect to the dynamics of the market, given the demise of Enron and the various go-go energy companies of the late 1990s and the turn of the most recent century here, will that -- until we see something like that again, will the demand be held down?

MR. DIPPOLD: I don't know that we can predict what suppresses the demand now. I have to respond to that.

MR. MCCLURE: Okay, fine. Thanks. I have no --

MR. DIPPOLD: You're asking specifically how will the demand be -- if the market is relieved of these problem companies, will the demand return, what's our view?

MR. MCCLURE: Yes.

MR. CASSIDY: You, also, want our best guesses

about what demand will be?

MR. MCCLURE: Yes. I have no further questions.

MR. CARPENTER: A few clarifications. Mr. Dippold, did I understand you to say that you make up to 500 kilovolt products in Baltimore?

MR. DIPPOLD: That's correct.

MR. CARPENTER: Have there been any imports of over 500 kilovolt products from Japan in the last few years?

MR. CASSIDY: We don't know. We'll get you the answer to the question.

MR. CARPENTER: Okay. And if any of this is confidential, you can respond in your brief. I'm just trying to get a sense as to whether there's a possibility that there may be some products within the product line that may not be made in Baltimore, that could still in the future be supplied by NGK from Japan.

MR. CASSIDY: Well, the answer to that question is yes. It's an extremely small share of the sales of Lock, less than one-half of a percent; but, the answer is, yes.

MR. CARPENTER: Okay. If you could just give us details on that in your post-conference brief, I would appreciate it.

The petitioners have alleged that NGK has targeted premium products in the market. I'm not sure specifically what they're referring to. But, do you have any response to

that?

MR. CASSIDY: The high end of these products do command greater margins for the manufacturers and it is true that Lock has targeted that, but using product made in Baltimore.

MR. CARPENTER: Okay. Mr. Dippold, you said that the Baltimore plant has been increasing their capacity and the way we asked for capacity data in a producer questionnaire is average capacity for each of the periods that we're looking at. The last period was January through September of 2002. And I was just wondering if we have captured the highest level of capacity that you have achieved. In other words, if your capacity at the end of September of 2002 or even at the end of December 2002 might have been higher than what you reported in your questionnaire response, if you could clarify that in your brief.

MR. DIPPOLD: Okay.

MR. CARPENTER: Also, are there any other producers of the subject merchandise in Japan, that you're aware of, whether or not they export to the United States?

MR. CASSIDY: There are no producers of product meeting U.S. standards. Whether or not there are other producers of porcelain insulators, I don't know. We will find out and let you know.

MR. CARPENTER: Okay, thank you. And one last question. Is Lock the importer of record for all the imports from NGK?

MR. CASSIDY: I'm almost certain the answer is yes, but I'll confirm that.

MR. CARPENTER: Mr. McClure?

MR. MCCLURE: Jim McClure, Office of Investigations. The scope mentioned in the Department of Commerce initiation of this case, it was 115KV and above. I assume that somewhat comports with your notion of the like product.

MR. CASSIDY: Sure. I mean, as I said before, we don't know why petitioners picked this definition of the scope, but we don't object to it.

MR. MCCLURE: And one final thing. Inasmuch as I advised Mr. Scheldrick that he had seven minutes left, Mr. Cassidy, you have 36 minutes left. Feel free not to use it.

MR. CARPENTER: Mr. Fischer?

MR. FISCHER: Thank you. I have just two brief questions. The first deals with how the Commission should look at imports from non-subject countries and if you could give us your thoughts on the best numbers to use for non-subject imports, that would be useful. Also, if you're aware of any farm producers that are exporting insulators to the United States, if you could identify them in your post-

conference brief. It may help us, as well.

MR. CASSIDY: We consider this to be an important issue and we will address it in the post-conference brief.

MR. FISCHER: Thank you. And then one final question. Mr. Dippold, you had mentioned that in 1999, Lock Insulators had stopped producing apparatus insulators. And I just wanted to get a little more information in your post-conference brief, exactly the timing of your ceasing of production of that, and you had also mentioned the removal of equipment and perhaps some cost involved in that. Our questionnaire involved only the subject product and I just want to make sure that in the questionnaire response for Lock Insulator, that we're only talking about station post insulators, whether it's the financial and production information.

And thirdly, on the pricing, we had only asked for U.S.-produced data in the pricing information for Lock Insulators. I just want to confirm that that's the case. Thank you, very much.

MR. CARPENTER: Mr. Scheldrick, would you like a few minutes to get your thoughts together for your closing statements, or are you prepared to go now?

MR. SCHELDRICK: We're ready to go now.

MR. CARPENTER: Okay. You can make your way up here. Each side will be given 10 minutes for closing

statements, beginning with the petitioners.

MR. SCHELDRICK: Thank you, Mr. Chairman, members of the staff. The issue before us today is whether there is a reasonable indication that imports of high voltage and extra high voltage ceramic station post insulators from Japan have caused material injury to the domestic industry and whether they threaten to cause material injury.

We have heard from the petitioners' representatives and you've seen in the proprietary information submitted in the petition and the questionnaire responses the nature and extent of that injury. And I think the issue comes down to why this has happened. Why is it that during the period of very strong demand, we have seen prices fall by up to 25 percent, based on the 1999 levels?

Now, the argument that we have just heard advanced is that these price reductions were a result of fierce domestic competition among the U.S. manufacturers. Well, this does not explain the very substantial rise in imports, which is apparent from the public data that we have submitted in the petition. We, also, hear that Lock, in Baltimore, is simply using these imports to top off its own capacity and to keep its customer base intact during periods of very high demand. I would respectfully suggest that this is really an argument that the tail is wagging the dog.

NGK is a global manufacturing company with a

global marketing strategy. The U.S. is obviously a very important market. And I simply do not believe and I would urge the Commission to treat with great skepticism the notion that the production and marketing activities of NGK in Japan are driving by decisions made in Baltimore. In any event, the notion that imports are being used simply to top off domestic production capacity does not explain the downward trend in pricing; in fact, the collapse of the domestic market price.

If you assume that what is happening is that Lock is looking to increase its market share and increase its profitability in the long term, it would certainly have no incentive whatsoever to see prices driven down to levels that are 25 percent below the level in 1999.

We submit that was is happening here is that NGK in Japan has targeted one or more of the U.S. producers and is seeking, through a practice of predatory pricing, to drive one or more of those producers out of business. We believe it is as simple as that and we believe that the data, which we have submitted and will submit in the post-conference brief, would demonstrate that.

I know that you have had many companies, who have come before, as we do today, and told you that their backs are against the wall and that only action by this agency and by the Department of Commerce can save them from ruin. But,

I would suggest that this is the case that the U.S. industry faces today.

I think the companies that you've heard from this morning, speaking on behalf of the petition, are, in many ways, exemplary examples of small U.S. companies that can compete and indeed have been competing in a domestic and indeed a global market. These are companies with proud traditions. They are also companies, which have continuously over the years evolved. They have developed. They have invested in new production equipment; highly competitive companies. I think it's very interesting that the three company representatives that spoke today are also part equity owners of the companies. These are men with many years of experience in the business, who believe in these companies enough and who believe in the products, to invest their own money in it. That's no small thing. And there is no question that given a level playing field, they can and will compete effectively.

The reality is, it is very difficult, as you know, for any small U.S. company to compete against a global manufacturing powerhouse, such as NGK, which has the ability, because it has high prices in a domestic market, to, in effect, subsidize predatory price exports to the U.S., in order to gain market share.

We look forward to submitting the additional

information you have requested and we urge you to conclude that there is indeed a reasonable indication that imports of high voltage and extra high voltage station posts from Japan have materially injured the domestic industry and threaten to continue to do so in the future. Thank you, very much.

MR. CARPENTER: Mr. Cassidy?

MR. CASSIDY: I am very tempted, Mr. Chairman, to take Mr. McClure's subtle hint and get out of here immediately; but let me take a couple of seconds to make some observations.

When one has a commodity product with very high fixed costs of production and three of the four domestic producers of that product increase their capacity and increase their production, therefore, lowering the cost of their per unit cost, the result, given competition with each other and competition from a very aggressive European and the potential exporters and the potential entrance of Brazilians and Indians, as well as Japanese, would lead to a decline in prices. This is not surprising. It has been going on for some time. It did not start at all with the increase in Japanese imports. You can see that very clearly from the data. So that the notion that this price trend down, which is obviously going on, was started by, caused by, or is being continued by Japanese imports is factually without any basis whatsoever.

The second point I have is that the Lapp conspiracy theory, that NGK has targeted a company, presumably Lapp, is what they're thinking about for demise, is nonsense. It's also legally irrelevant. But, if you're in the mood for conspiracy theories, let's think about another one. Why didn't they bring this case against all of the suppliers of station post insulators to the U.S.? It is a way to save money, as you know, as I know, since I bring these cases, if you consolidate your cases.

There certainly should be cases against the Europeans. Ceram has production facilities in Eastern Europe, which are extremely low cost. It has infusion technology, which can bring on deliveries very quickly. And it is appearing in the marketplace, as you will see in the pricing data, frequently winning cases.

There are also low-cost Brazilian producers. There are low-cost Indian producers. Why don't we have cases against those, that these poor little companies have their backs against the wall and are about to go out of business? They forgot about these other competitors, who can and undoubtedly will come in with product.

So, why Japan? Particularly why Japan, when the Japanese company, of which they are so afraid, apparently is thinking about reducing its production capacity in Japan. So, you will have an order against a company that is, as

we've told you, not shipping to the United States and furthermore is reducing its capability to ship to the United States from Japan.

That's an interesting strategy on the part of Lapp. I'm afraid I can't explain to you why, but maybe you can figure it out. Thanks a lot.

MR. CARPENTER: Thanks again for all participants, for your testimony and for your responses to the staff questions. The deadline for both submission of corrections to the transcript and for briefs in the investigation is Friday, January 24th. If briefs contain business proprietary information, a non-proprietary version is due on January 27th. The Commission is scheduled its vote on the investigation for February 13th, at 11:00 a.m., and will report its determination to the Secretary of Commerce on February 14th. Commissioners' opinions will be transmitted to Commerce on February 24th. This conference is adjourned.

(Whereupon, at 12:15 p.m., the conference was adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Ceramic Station Post Insulators from Japan

INVESTIGATION NO.: 731-TA-1023

HEARING DATE: Janaury 21, 2003

LOCATION: Washington, D.C

NATURE OF HEARING: Preliminary Conference

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: 1/21/03

SIGNED: LaShonne Robinson
Signature of the Contractor or the Authorized Contractor's Representative
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Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

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